

Message Text

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TAGS: ECON, CA

SUBJ: GNP GROWTH IN FOURTH QUARTER AND YEAR 1975

REF: OTTAWA A-726, DEC 2, 1975

1. STATISTICS CANADA RELEASED ON MARCH 4 GNP FIGURES OF C\$161,944 MILLION FOR FOURTH QUARTER AND C\$154,752 FOR YEAR 1975 (SEASONALLY ADJUSTED AT ANNUAL RATES). FOURTH QUARTER GNP INCREASE WAS 2.8 PERCENT AS OPPOSED TO INCREASE OF 4.0 PERCENT IN THIRD QUARTER. 1975 GNP INCREASED BY 9.9 PERCENT FROM C\$140,880 MILLION IN 1974.

2. REAL GNP MEASURED IN 1971 CONSTANT DOLLARS, WAS C\$110,128 MILLION FOR FOURTH QUARTER, UP 0.4 PERCENT FROM THIRD QUARTER FIGURE OF C\$109,736 MILLION. FOR YEAR REAL GNP INCREASED 0.2 PERCENT, FROM C\$108,862 MILLION IN 1974 TO C\$109,044 MILLION.

3. STATCAN POINTED OUT IN RELEASING STATISTICS THAT "ECONOMIC RECOVERY CONTINUED IN FOURTH QUARTER OF 1975, BUT AT A SUBSTANTIALLY SLOWER PACE THAN THAT EXPERIENCED IN THE EARLY STAGES OF PREVIOUS RECOVERIES....

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NEVERTHELESS, THE FOURTH QUARTER DISPLAYED A NUMBER OF

CHARACTERISTICS TYPICAL OF EARLY RECOVERY PERIODS, AS INCREASES IN PERSONAL EXPENDITURE AND RESIDENTIAL CONSTRUCTION SUPPLIED MOST OF THE REAL GROWTH, AND IMPORTS GREW FASTER THAN EXPORTS LEADING TO A DETERIORATION IN THE TRADE BALANCE".

4. ACCORDING TO STATCAN, "FOURTH QUARTER WEAKNESS WAS REFLECTED BY A VERY MODERATE (1.6 PERCENT) INCREASE IN WAGES, SALARIES AND SUPPLEMENTARY LABOR INCOME, WHICH IS BY FAR THE LARGEST COMPONENT OF GROSS NATIONAL PRODUCT."

5. DURING FOURTH QUARTER, HEAVY INVENTORY LIQUIDATION CONTINUED. STATCAN REPORTED THAT "VERY LARGE COLUME OF STOCKS ACCUMULATED IN 1974 AND LATE 1973, WHICH PROBABLY ACTED TO DELAY THE START OF THE RECESSION IN CANADA, NOW APPEARS TO BE EXERTING A STRONGER THAN NORMAL RESTRAINT ON RECOVERY." VALUE OF PHYSICAL CHANGE IN INVENTORIES DECLINED TO MINUS C\$2.7 BILLION FROM MINUS C\$2.1 BILLION IN THIRD QUARTER.

6. CONSUMER SPENDING REMAINED STRONG IN FOURTH QUARTER, WITH EXPENDITURE ON CONSUMER GOODS AND SERVICES RISING 3.9 PERCENT TO C\$97.5 BILLION. LARGEST INCREASES IN PERSONAL EXPENDITURE WERE DURABLES AND NON-DURABLES, WHICH GREW BY 6.9 PERCENT AND 5.5 PERCENT, RESPECTIVELY.

7. PRICES DECELERATED SLIGHTLY IN FOURTH QUARTER AS IMPLICIT GROSS NATIONAL EXPENDITURE PRICE INDEX SHOWED 2.5 PERCENT INCREASE AS OPPOSED TO 2.9 PERCENT INCREASE IN PREVIOUS QUARTER. GNE IMPLICIT PRICE INDEX INCREASE FOR 1975 WAS 9.7 PERCENT AS CONTRASTED WITH 13.8 PERCENT INCREASE IN 1974.

8. FOR 1975, STATCAN REPORTED THAT "THE RECESSION THAT BEGAN IN 1974 BOTTOMED OUT EARLY IN 1975, BUT ... THE SUBSEQUENT RECOVERY PROVED TO BE RELATIVELY WEAK ... INVESTMENT IN RESIDENTIAL CONSTRUCTION AND EXPORTS OF GOOD AND SERVICES BOTH DECLINED IN REAL TERMS IN 1975; UNCLASSIFIED

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THERE WAS A DRAMATIC SWING IN INVENTORIES OF MOE THAN C\$2.8 BILLION, AND PERSONAL EXPENDITURE ON CONSUMER GOODS AND SERVICES RECORDED ITS SMALLEST REAL GROWTH SINCE 1970. THERE WAS A MODEST INCREASE IN THE CURRENT VALUE OF EXPORTS, BUT THIS WAS OUTWEIGHED BY A SUBSTANTIAL INCREASE IN IMPORTS, AND THE BALANCE OF TRADE IN GOODS AND SERVICES WORSENER BY C\$3.3 BILLION."

9. GROSS CAPITAL FORMATION GREW TO C\$37.3 BILLION IN 1975, AN INCREASE OF 13.5 PERCENT OVER 1974, BUT IN REAL TERMS INCREASE WAS ONLY 1.6 PERCENT. RESIDENTIAL CONSTRUCTION WAS PARTICULARLY WEAK IN EARLY 1975, AND DECLINED BY 10.7 PERCENT FOR UEAR.

10. EXTERNAL SECTOR WAS PARTICULARLY WEAK SEGMENT, WITH EXPORTS RISING 3.0 PERCENT WHILE IMPORTS WERE UP 11.0 PERCENT. WITH ADDITIONAL DEFICIT ON SERVICE TRANSACTION OF C\$1.0 BILLION, TRADE BALANCE HAD RECORD DEFICIT OF C\$5.5 BILLION. (EXPORTS OF GOODS AND SERVICES OF C\$39.651 MILLION AND IMPORTS OF GOODS AND SERVICES OF C\$45,136 MILLION).

11. TOTAL REVENUES OF ALL LEVELS OF GOVERNMENT (EXCLUDING INTERGOVERNMENTAL TRANSFERS) ROSE 7.7 PERCENT IN 1975, AND TOTAL GOVERNMENT EXPENDITURES INCREASED BY 20.0 PERCENT. ON NATIONAL ACCOUNTS BASIS, GOVERNMENT SECTOR REGISTERED DEFICIT OF C\$4.6 BILLION IN 1975, WHICH, ACCORDING STATCAN, WAS "FIRST LARGE DEFICIT SINCE THE EARLY SIXTIES".

12. COMMENT: SLOWDOWN IN FOURTH QUARTER OF ECONOMIC RECOVERY COULD PROMPT SOME FISCAL EXPANSIONARY MEASURES IN FINMIN MACDONALD'S MAY BUDGET. PERHAPS MACDONALD WILL GIVE SOME ADDITIONAL TAX RELIEF FOR BUSINESS CAPITAL FORMATION WITH INCENTIVES FOR ESTABLISHING NEW BUSINESSES. DURING RECENT CALL ON MINISTER FOR NATIONAL REVENUE, CULLEN TOLD AMBASSADOR THAT MACDONAL WAS AWARE OF NEED FOR NEW BUSINESS CAPITAL INCENTIVES AND MAY INITIATE SOME TAX REFORM LEGISLATION IN THIS AREA.

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